The Economics of Workers Compensation

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Outline: The Economics of Workers Comp

- The US Economy: Animal Spirits Awakened?

- Labor Markets: A Deep Dive
  - Adverse and favorable developments impacting WC

- Financial Markets: A Decade After the Crisis Began
  - Interest rate trends: On the rise
  - Financial markets: The return of volatility
  - Why this matters to WC

- Tax Cuts and Jobs Act of 2017
  - What the Act means for insurers and WC

- Trade Policy
  - Why trade wars and workers comp don’t mix

- Infrastructure Initiatives
  - Good news for workers comp?
THE ECONOMY

The Strength of the Economy Will Greatly Influence Growth in Insurers’ Exposure Base Across Most Lines—Especially Workers Comp

How Is “Trumponomics” Impacting the Industry?
Awakening America’s “Animal Spirits”

Economic Policy and the Insurance Industry

Consumer and Business Confidence Are Key
US Real GDP Growth*

The Q4:2008 decline was the steepest since the Q1:1982 drop of 6.8%.

Recession began in Dec. 2007

2018 GDP forecasts were revised upwards by ~0.4% due to tax reform, but effects wane in 2019

First consecutive quarters of 3%+ GDP growth since 2014

Demand for Insurance Should Increase in 2018-19 as GDP Growth Continues at a Steady and Perhaps Accelerating Pace and Gradually Benefits the Economy Broadly.

* Estimates/Forecasts from Blue Chip Economic Indicators.
Source: US Department of Commerce, Blue Economic Indicators 5/18; Center for Risk and Uncertainty Management, Univ. of South Carolina.
The Economy Drives P/C Insurance

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; I.I.I.

Direct Written Premiums track Nominal GDP—not quarter by quarter but overall fairly well.

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; I.I.I.
Consumer Confidence Index: Jan. 1987 – Apr. 2018

Outlook: Consumers are optimistic about the future, which is consistent with expectations for stronger economic growth (consumers account for nearly 70% of all spending in the economy). Should positively influence growth of insurable exposures.

Source: The Conference Board; Wells Fargo Research.

The Conference Board’s Consumer Confidence Index stood at 128.7 in April, close to its post-recession high.
NFIB Small Business Optimism Index: Jan. 1988 – March 2018

The NFIB’s Index of Small Business Optimism remains close to its cyclical high. Tax reform, reduced regulations and strong sales will drive investment, hiring and exposures.

Outlook: Small businesses are much more optimistic about the future.

Source: National Federation of Independent Business; Wells Fargo Research.
Business Investment Is a Potent Driver of Property Insurance Premium Growth*

% change from same quarter, prior year

-20% -10% 0% 10% 20% 30%


- Recession
- % change, property ins premiums
- % change, fixed investment

Business fixed investment is forecast to grow at 5%–6% in 2017:2H and at 4.5%–5.5% in 2018.

Investment in equipment and software is expected to grow but investment in structures is expected to shrink.

*Commercial property direct premiums written (fire, allied lines, CMP, inland marine, burglary and theft); business fixed investment (structures, equipment, and software).

Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: https://fred.stlouisfed.org/series/PNFI#0; National Bureau of Economic Research (recession dates); Insurance Information Institute.
New Private Housing Starts, 1990-2023F

Insurers Continue to See Meaningful Exposure Growth in the Wake of the “Great Recession” Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure.


Job growth, low inventories of existing homes, still-low mortgage rates and demographics should continue to stimulate new home construction for several more years.

New home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959.
Private (but not public) construction spending remains relatively strong. Public construction spending could benefit from a boost in infrastructure investment.
New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2014-15 is still below 1999-2007 average of 17 million units, but a robust recovery is well underway.

Job growth and improved credit market conditions boosted auto sales to near record levels in recent years.

Truck, SUV purchases remain strong but have slumped a bit.

Sales have returned to pre-crisis levels.

Yearly car/light truck sales are slowing slightly, as demand tapers following the recovery from the recession. PP Auto premium might grow by 3.5% - 5%.

Labor Markets Trends: 
Strengthening Continues in 2018

Strong Job Gains Continue
Unemployment Is at an 18-Year Low
Payrolls Expand to Record Highs
Private sector employment is now 16.6% (17.9 million) above the crisis trough and 8.6% (10 million) above its pre-crisis peak.

*Annual averages of monthly data. 2018 figure is annualized based on data through April.

Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, Univ. of South Carolina.
The economy created an average of 2.35 million jobs per year from 2011 through 2017—and trillions in payroll.

*Annual averages of monthly data. 2018 figure is annualized based on data through April.
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, Univ. of South Carolina.
US Unemployment Rate Forecast

2007:Q1 to 2019:Q4F*

Rising unemployment eroded payrolls and WC's exposure base
Unemployment peaked at 10% in late 2009

At 3.9%, the unemployment rate is at an 18-year low

Jobless figures have been revised downward for 2018/19

Unemployment forecasts have been revised modestly downwards. Optimistic scenarios put the unemployment as low as 3.2% by Q4 2019.

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (5/18 edition); Risk and Uncertainty Management Center, University of South Carolina.
Unemployment and Underemployment Rates: Still Falling

January 2000 through April 2018, Seasonally Adjusted (%)

"Headline" Unemployment Rate U-3

Unemployment + Underemployment Rate U-6

High unemployment and underemployment constrained overall economic growth for years, but the job market is operating near full employment.

For U-6, 8% to 10% is "normal"

U-6 went from 8.0% in March 2007 to 17.5% in October 2009

U-6 was 7.8% in April 2018

"Headline" unemployment was 3.9% in April 2018. 4% to 6% is "normal"

Source: US Bureau of Labor Statistics; Center for Risk and Uncertainty Management, Univ. of South Carolina.
In March 2018, all but 3 states and the District of Columbia had unemployment rates below 5%.

In March, the US unemployment rate of 4.1% was the lowest in 14 years.

*Provisional figures for March 2018, seasonally adjusted.
In March 2018, 26 states had unemployment rates of 4% or less. Smaller, more rural states have the lowest unemployment rates in the US.
Lowest unemployment rates are found in northern New England, upper Midwest and northern plains—and Hawaii.

At 1.9% in March, Hawaii had the lowest unemployment rate in the US.

At 7.3%, unemployment is the highest in the country.

Source: US Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.
Gradual improvements in the US labor market over the past 9 years have created millions of jobs, but pockets of despair remain.

Source: US Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.
POSITIVE LABOR MARKET DEVELOPMENTS

Key Factors Driving Workers Compensation Exposure
Average Weekly Hours of All Private Workers, March 2006—March 2018*

*Seasonally adjusted
Note: Recessions indicated by gray shaded columns.

Hours worked totaled 34.5 per week in March, just shy of the 34.6 hours typically worked before the “Great Recession.”

Hours worked plunged during the recession, impacting payroll exposures.
The average hourly wage was $26.82 in March 2018, up 26.4% from $21.22 when the recession began in Dec. 2007.
Wage growth continues to accelerate, albeit slowly

*Annual figures calculated from monthly seasonally adjusted data. 2018 data through February.

The number of workers quitting their jobs tumbled 1.7 million during the recession, down 46%, from 3.1 million in 2006.

In 2018, approximately 3.2 million people will quit their jobs, up 92% since 2010.

*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Take This Job And…Quit It!
Quit Rate, 2005–2018*

Approximately 2.3% of workers have or will quit their jobs in 2017 and 2018—the highest proportion in the post-crisis era.


*Annual figures calculated from month seasonally adjusted data. 2018 figure through March.
Long-Term Unemployed (27+ Weeks), Jan. 2003—Apr. 2018*

The number of long-term unemployed soared by 5.7 million to 6.8 million in 2010 (520%), from 1.1 million in 2006.

Today, there are 1.3 million long-term unemployed, down 81% since 2010.

The ranks of the long-term unemployed remained near the recession peak for 3 years after the recovery began.

*Seasonally adjusted
Note: Recessions indicated by gray shaded columns.
Help Wanted! Number of Job Openings, Jan. 2003—Feb. 2018*

*Seasonally adjusted
Note: Recessions indicated by gray shaded columns.

Job openings plunged to 2.2 million, 48%, from 4.2 million in 2005

Today, there are 6.1 million job openings, up 175% since 2009
Number of Unemployed Persons per Job Opening, Feb. 2003—Feb. 2018*

Unemployed Persons per Job Opening

At the height of the recession, there were nearly 7 job seekers for every one opening.

Today, there is just 1.1 job seeker for every one opening.

*Seasonally adjusted
Note: Recessions indicated by gray shaded columns.
Sources: US Bureau of Labor Statistics JOLTS survey; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.
You’re Hired!
Number of Hires, Jan. 2003—Feb. 2018*

Hirings plunged to 3.7 million during the recession, down 33%, from 5.5 million in 2006.

Some 5.5 million workers will be hired in 2018, up 50% since 2009.

*Seasonally adjusted
Note: Recessions indicated by gray shaded columns.
Today, there are 6.1 million job openings, up 175% since 2009.

A record 3.2 million will quit their job in 2018, up nearly 100% since 2009.

Job OPENINGS plunged to 2.2 million, 48%, from 4.2 million in 2005.

Number of Job Openings vs. Quits, Jan. 2003—Feb. 2018*

*Seasonally adjusted
Note: Recessions indicated by gray shaded columns.
Worker confidence in the job market has soared

OPENINGS +175%
HIRES +50%
QUITS +96%

*Seasonally adjusted
Note: Recessions indicated by gray shaded columns.
DOES THE MINIMUM WAGE MATTER FOR WORKERS COMPENSATION?

Yes, and Increasingly So!
States Increasing Their Minimum Wage in 2018: Fuels WC Exposure

18 states increased their minimum wage in 2018, adding $5 billion in wages to 4.5 million workers. Approximately 20 cities boosted their minimum wages as well.

Number of States Increasing Their Minimum Wage, 2014 – 2018

Minimum wage increases by states, cities and counties have added tens of billions of dollars to the WC exposure base in recent years. The federal minimum wage of $7.25 hasn’t changed since 2009.

Sources: Economic Policy Institute, BusinessInsider.com, USA Today; Risk and Uncertainty Management Center, Univ. of South Carolina.
In 2017, 80.4 million workers age 16+ were paid on an hourly basis, representing 58.3% of all wage and salary workers (BLS).

Of those paid by the hour, 542,000 earned the prevailing federal minimum wage of $7.25 (down from 701,000 in 2016) and 1.8 million made less than the federal minimum (up from 1.5 million in 2016).

These workers account for 2.3% of the labor force, down from 2.7% in 2016 and 3.3% in 2015.

This suggests that large numbers of workers are benefiting from minimum wage increases.

Tens of billions of new WC payroll exposure added.
ADVERSE LONG-TERM LABOR MARKET DEVELOPMENTS

Key Factors Harming Workers Compensation Exposure and the Overall Economy
Number of “Discouraged Workers,”
Jan. 2002—April 2018

"Discouraged Workers" are people who have searched for work for so long in vain that they actually stop searching and drop out of the labor force.

There were 408,000 discouraged workers in Apr. 2018, down from 69% from the crisis peak of 1.32 million in Dec. 2010.

Large numbers of people exited the labor force and were slow to return.

In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.
Sources: Bureau of Labor Statistics; NBER (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.
Large numbers of people are exiting (or not returning to the labor force)

Labor force participation has improved slightly but remains far below pre-recession levels and remains one of the country’s most vexing labor market problems.

*Defined as the percentage of working age persons in the population who are employed or actively seeking work. Recessions indicated by gray shaded columns.

The recovery in wage and salary growth is nearly 9 years old—and remains incomplete. This is a major factor holding back payroll exposure and premium growth in WC.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2018:Q1

Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: [http://research.stlouisfed.org/fred2/series/WASCUR](http://research.stlouisfed.org/fred2/series/WASCUR); National Bureau of Economic Research (recession dates).

Prior peak was 2008:Q3 at $6.54 trillion

Recent trough (2009:Q1) was $6.23 trillion, down 5.3% from prior peak

Latest (2018:Q1) was $8.60 trillion, a new peak-$2.37 trillion (38%) above 2009 trough

Growth rates
- 2017: 4.5%
- 2016: 3.4%
- 2015: 3.2%
- 2014: 4.9%
- 2013: 5.2%
- 2012: 2.3%
- 2011: 3.9%
- 2010: 5.5%
Payroll vs. Workers Comp Net Written Premiums, 1990-2017

Payroll Base*

Wage & Salary Disbursements
WC NPW

$Billions

$Billions

$9,000

$8,000

$7,000

$6,000

$5,000

$4,000

$3,000

$2,000

90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17

WC premium volume dropped two years before the recession began

WC net premiums written were down $14B or 29.3% to $33.8B in 2010 after peaking at $47.8B in 2005

Continued payroll growth will benefit WC exposure growth, but falling rates will adversely impact growth in Net Written Premiums.

*Private employment; Shaded areas indicate recessions. WC premiums are from NCCI through 2017.
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR.
Impacts of Tax Reform on the P/C Insurance Industry

*The Tax Cuts and Jobs Act of 2017*

Lower Corporate Tax Rate Benefits All Insurers, But Not Equally
Tax Reform Implications for P/C Insurers and Reinsurers

- **Reduction of Corporate Tax Rate from 35% to 21%...**

- **All Insurers Benefit...But Not Equally**
  - Companies generating most of their profits from underwriting income previously taxed at 35% benefit the most.
  - Write-downs of Deferred Tax Assets hurt some insurers.
  - Companies generating proportionately more of their Net Investment Income from (taxable) Corporate Bonds benefit more than companies with heavier muni holdings.
    - In P/C industry, insurers with underwriting losses tend to hold proportionately more in corporates.
  - **Base Erosion and Anti-Abuse Tax (BEAT): Leveling the Playing Field**
    - Domestic (re)insurers previously taxed at 35% will benefit relative to (re)insurers domiciled in Bermuda, etc.
    - Diminished advantage for foreign-owned insurers that cede premium offshore.
Impact of Tax Cuts and Jobs Act on US P/C Publicly Traded Insurers: Deferred Tax Assets and Liabilities

The reduction in corporate tax rates under the TCJA of 2017 reduced the value of DTAs by 39.5% for public P/C insurers.
TCJA of 2017 reduced relative attractiveness of debt in capital structure. All else equal, D/E ratios should fall.
Summary of Structural Changes to the Industry as the Result of Tax Reform

- All Else Equal, Reduction in Corporate Tax Rate from 35% to 21% Should Enhance Profitability
  - Public Companies: More share buybacks, higher dividends
  - DTA write-downs are a one-time hit

- Decreases Attractiveness of Holding Muni Debt
  - Expect muni share of bond portfolio to shrink modestly

- Decreases Attractiveness of Issuing Debt
  - Expect D/E ratios in insurer capital structures to fall; M&A excepted

- Expect Diminished Cessions to Offshore Reinsurance Affiliates Due to Base Erosion and Anti-Abuse Tax (BEAT)
Net income fell sharply in 2017 as high CAT losses took their toll.
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2017

Profitability = P/C insurer ROEs. 2011-16 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

Source: NAIC, ISO, A.M. Best, USC RUM Center.
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Insurer Profitability

The “Trump Bump” Has Lifted Stock Markets and Interest Rates

Will the Gains Help Insurers?
2018 marks the 9th year of the current bull market. Stock markets rose sharply following the 2016 election and continued to rise throughout 2017 and early 2018.

**Trump Bump**: Sharp surge in stock post-election

2016: +9.5%
2017: 19.4%
2018 YTD: 2.5%

*Through May 11, 2018.
Source: NYU Stern School of Business: [http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html)
P/C Insurers Investments by Type, 2016

- Bonds: 61.3%
- Stocks: 22.6%
- Real Estate*: 5.8%
- Cash, Cash Equivalents & ST Securities: 1.7%
- Other: 8.6%

P/C insurer investments totaled $1.6 trillion at year-end 2016.

Bonds account for more than 60% of P/C insurer assets.

*General account assets.
Insurers posted net realized capital gains in 2010 - 2017 following two years of realized losses during the financial crisis. The bull market of 2017 helped push gains to more than twice their 2016 level.

*Figure is through Q4:2017
Sources: A.M. Best, ISO; Insurance Information Institute.
Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 but showed a small (1.7%) increase in 2015—though 2016 experienced another decline. Up 7.6% in 2017.

Investment income in 2017 was still ~10% below its 2007 pre-crisis peak.

1 Investment gains consist primarily of interest and stock dividends. Sources: ISO; Insurance Information Institute.
Total Investment Gains Were Up Sharply in 2017 as Both Investment Income and Realized Capital Gains Increased Materially.

1 Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
*2005 figure includes special one-time dividend of $3.2B.
Sources: ISO, SNL; Insurance Information Institute.
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<th>Date</th>
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2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer’s investment in a non-insurance business.

Sources: ISO, A.M. Best; 2018 estimate from the Center for Risk and Uncertainty Management, University of South Carolina.

Yields on 10-Year US Treasury Notes have been essentially below 5% for more than a decade

Late 2016 “Trump Bump” in the aftermath of the 2016 election shrunk in 2017—but rates are again on the rise

Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

Sources: Federal Reserve Bank at [http://www.federalreserve.gov/releases/h15/data.htm](http://www.federalreserve.gov/releases/h15/data.htm), National Bureau of Economic Research (recession dates); Insurance Information Institute.
Treasury Yield Curves: Pre-Crisis (July 2007) vs. April 2016 and 2018

The Fed Began to Raise Rates in Dec. 2015 but Rates Remain Far Below Pre-Crisis Levels

Source: Federal Reserve Board of Governors: [http://www.federalreserve.gov/releases/h15/data.htm](http://www.federalreserve.gov/releases/h15/data.htm); Univ. of South Carolina..
A full normalization of interest rates is unlikely until the early 2020s, approximately 15 years after the onset of the financial crisis.

Sources: Blue Chip Economic Indicators (5/18 for 2018 and 2019; for 2018-2024 3/18 issue); Univ. of South Carolina.
### Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2017*

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Investment yield in 2017 was down about 150 BP from pre-crisis levels.

The yield on invested assets remains low relative to pre-crisis yields. Fed rate increases beginning in late 2015 have pushed up some yields, albeit quite modestly. Shrinking of Fed’s balance sheet should help, too, in 2018 and beyond.

Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017 figure is from ISO.
P/C Insurer Investment Yields: Lowest in Half a Century

Yield on average cash and investment assets, %

% Change

Average yields in 2016-2017 dropped to 3.1%, their lowest level since the mid-1960s.
M&A Trends

Accumulation of Capital, Modest Growth Could Fuel M&A Activity

Major 2018 Deal:
- AIG/Validus: $5.56B
- Axa/XL: $15.3B

1Includes transactions where a US company was the acquirer and/or the target.

Source: Conning proprietary database.
Interest Rate and Inflation Trends

Federal Reserve Policy, Economic Strengths and Deficits Will Drive Interest Rates and Inflation
The Fed’s aggressive rate cutting ushered in what will be at least 15 years of depressed investment earnings for the P/C insurance industry.

The Fed’s glacial pace of interest rate normalization suggests P/C will be lucky to see pre-crisis level interest rates until the early 2020s.

Note: Recessions indicated by gray shaded columns.
Source: Board of Governors, Federal Reserve; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Insurers invest heavily in intermediate term, high quality corporate bonds—but yields have remained stubbornly low.

Pre-Crisis: 5.5% - 6.0%
Post-Crisis: 3%-4%
Today: 4.0%
The narrowing of the spread between long and short-term investments is not helpful to P/C insurers, especially in long-tail lines like WC. Also, concern that a shrinking yield spread suggests little confidence in the strength of the economy in the years ahead.

Note: Recessions indicated by gray shaded columns.
Source: Federal Reserve Bank of St. Louis. FRED Economic Data; Center for Risk and Uncertainty Management, University of South Carolina.
WC Indemnity Severity vs. Wage Inflation, 1995 - 2017p

Indemnity severities usually outpace wage gains and were up sharply in 2017

Annual Change 1995–2017
Indemnity Claim Sev.: +4.3%
US Avg. Weekly Wage: +3.4%

2017p: Preliminary based on data valued as of 12/31/2017; Developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey.
Source: NCCI; University of South Carolina, Center for Risk and Uncertainty Management.
WC Medical Severity Generally Outpaces the Medical CPI Rate, 1995 – 2017

Average annual increase in WC medical severity from 1995 through 2017 was well above the medical CPI (5.7% vs. 3.6%), but the gap has narrowed. Lost-time medical severities appear to be on the rise again.

Despite all of the ACA’s problems and criticism, the Act has brought down the proportion of Americans without health coverage.

Some evidence that uninsured rate was up in late 2017 due to pending elimination of the Individual Mandate…More cost shifting to WC?

Source: CDC/NCHS, National Health Interview Survey, reported in: https://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201802.pdf
Annual Inflation Rates, (CPI-U, %), 1990–2019F

Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10.

Inflationary expectations are up on expectations of stronger economic growth, higher energy costs, deficit spending.

Less slack in the US economy, rising energy prices and looming budget deficits suggest additional inflationary pressures.

Soaring budget deficits will pressure credit markets and could put additional pressure on interest rates. The budget deficit—at 3.5% of GDP today, will soon reach 5%. Includes transactions where a US company was the acquirer and/or the target. Source: Conning proprietary database.
The national debt now exceeds GDP for the first time since WW II. This will likely pressure interest rates as the size of federal debt issuances rises.

Source: Congressional Budget Office.
Infrastructure Initiatives

WC Insurance Will Be a Primary Beneficiary of Any Major Infrastructure Initiatives
Infrastructure Spending: Benefits for WC Insurers?

**Infrastructure Spending**

- Insurance industry could benefit from stepped-up infrastructure spending as promised by Trump

- But 2017 Tax Cuts and Jobs Act means little fiscal room for infrastructure initiatives

- Privatization of government infrastructure could provide growth opportunity for commercial insurers

- If infrastructure spending materializes, will benefit all major commercial lines:
  - WC
  - Commercial Property & Liab.
  - Surety
  - Commercial Auto
The White House Infrastructure Initiative: President Trump’s Plan by the Numbers

The President’s plan calls for $200 billion in federal infrastructure investments over the next 10 years. Getting to a total economic impact of $1.5 trillion requires enormous co-investments from the states.

The Trump Administration proposes to make $200 billion in infrastructure investments over 10 years, producing a total economic benefit of $1.5 trillion over the next decade.

Types of Infrastructure Targeted

- Infrastructure Spending: Eligible Types of Spending
  - Surface transportation (roads, bridges, etc.)
  - Airports, Rail, Ports and Waterways
  - Water resources (hydro power, drinking water, waste)
  - Brownfield remediation/Superfund sites
  - Broadband
  - Worker education and training

- Major Challenge: Funding at Federal & State Levels
  - Deficit consequences of Tax Cuts and Jobs Act limit appetite for additional federal spending
  - States need to participate financially but finances are tight
US Trade Policy

How Will the WC Insurance Industry Be Impacted by Trade Disputes?
Trade Actions and Workers Compensation

Major Trade Actions Announced so Far

- April 3: $50B in tariffs announced on some 1,300 products produced in China
- March 8: Steel and Aluminum
  - 25% tariff on foreign steel
  - 10% tariff on imported aluminum
- NAFTA renegotiation; TPP pull-out

Potential Impacts: Job and Income Losses Could Be Severe if Targeted Countries Retaliate

- Hundreds of thousands of jobs would be lost across many industries
- WC premium shrinkage would be measured in the billions as hundreds of billions in wages and salaries would be at risk
Dollar Share of Inputs Potentially Impacted by Tariffs on Chinese Goods

- Aircraft: 67%
- Electrical Equip.: 65%
- Fabricated Metal: 62%
- Plastics & Rubber: 59%
- Machinery: 58%
- Computer & Elec.: 57%
- Chemical Products: 48%
- Primary Metals: 47%
- Defense: 41%
- Misc. Mfg.: 35%
- Motor Veh. & Parts: 30%
- Textiles: 30%
- Furniture: 30%
- Mining Support: 29%
- Construction: 27%
- Pipelines: 27%
- Waste Mgmt.: 22%
- Mining: 22%
- Printing: 22%
- Paper: 21%

Example: 67% of the value of US-produced aircraft is vulnerable to announced tariffs.

Trade disputes can lead to job losses and adversely impact key WC exposure sources.

*Trump administration based on 2017 only and figures is an estimate based on the first three quarters of the year.

**Truman administration ROE of 6.97% based on 3 years only, 1950-52.

Impacts on Employment and Income from Aluminum Tariffs: 7% and 30% Tariff Scenarios

There is no question that tariffs in the aluminum and steel industry will kill jobs in industries that use these inputs, harming workers comp payroll exposures. The damage will be far worse when foreign countries introduce retaliatory tariffs of their own.

Average Annual Job Losses

Cumulative Personal Income (Wage/Salary) Loss ($ Billions)

Sources: NERA, Impacts of Potential Aluminum Tariffs on the US Economy, June 2017.
The Ever-Changing Economics of Workers Compensation
Summary: The Economics of Workers Comp

- **Economy**: The strong economy is the primary driving force behind the majority of commercial exposure growth, including for WC insurers.

- **Labor Markets**: Strongest they have been in 18 years
  - Expect employment growth to slow since the economy is at full employment
  - Modest wage pressures should build

- **Investment Earnings**: Gradual improvement as interest rates rise

- **Tax Reform**: New positive for most insurers

- **Trade Disputes**: Unambiguous negative

- **Infrastructure**: Little significant impact
Thank you for your time and your attention!

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